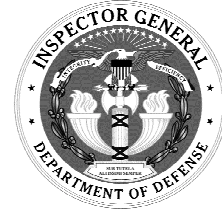


November 8, 2002



# Financial Management

Naval Air Systems Command  
Financial Reporting of  
Non-Ammunition Operating  
Material and Supplies for FY 2002  
(D-2003-020)

**Office of the Inspector General  
of the  
Department of Defense**

CONSTITUTION OF THE  
UNITED STATES OF AMERICA

NO MONEY SHALL BE DRAWN FROM THE TREASURY, BUT IN CONSEQUENCE OF APPROPRIATIONS MADE BY LAW; AND A REGULAR STATEMENT AND ACCOUNT OF THE RECEIPTS AND EXPENDITURES OF ALL PUBLIC MONEY SHALL BE PUBLISHED FROM TIME TO TIME.

ARTICLE I, SECTION 9

## Report Documentation Page

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<b>Title and Subtitle</b> Financial Management: Naval Air Systems Command Financial Reporting of Non-Ammunition Operating Material and Supplies for FY 2002	<b>Contract Number</b>	
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	<b>Program Element Number</b>	
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### **Acronyms**

APA	Appropriations Purchase Account
MEASURE	Metrology Automated Systems for Uniform Recall and Reporting System
METCAL	Metrology and Calibration
NAVAIR	Naval Air Systems Command
ND PP&E	National Defense Property, Plant, and Equipment
OM&S	Operating Materials and Supplies
PP&E	Property, Plant, and Equipment
SFFAS	Statement of Federal Financial Accounting Standards



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

November 8, 2002

MEMORANDUM FOR NAVAL INSPECTOR GENERAL

SUBJECT: Report on the Naval Air Systems Command Financial Reporting of  
Non-Ammunition Operating Material and Supplies for FY 2002  
(Report No. D-2003-020)

We are providing this report for your information and use. We considered management comments on a draft of this report when preparing the final report.

Comments on a draft of this report, conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. James L. Kornides at (614) 751-1400 extension 211 (jkornides@dodig.osd.mil) or Mr. John K. Issel at (614) 751-1400 extension 212 (jissel@dodig.osd.mil). See Appendix B for the report distribution. The team members are listed inside the back cover.

A handwritten signature in black ink, reading "David Steensma", is positioned above the printed name.

David K. Steensma  
Deputy Assistant Inspector General  
for Auditing

## **Office of the Inspector General of the Department of Defense**

**Report No. D-2003-020**

**November 8, 2002**

Project No. D2001FJ-0179.000

### **Naval Air Systems Command Financial Reporting of Non-Ammunition Operating Material and Supplies for FY 2002**

#### **Executive Summary**

**Who Should Read This Report and Why?** DoD civilian and military financial management personnel who use or are involved in the preparation of the financial reports required by the Chief Financial Officers Act. This report is the first in a series of planned reports and discusses the financial reporting of non-ammunition operating materials and supplies (OM&S) by the Navy.

**Background.** DoD defines OM&S as tangible personal property that is to be consumed in normal operations. The Department of the Navy (Navy) non-ammunition OM&S is made up of appropriations purchase account principal end items, sponsor-owned material, appropriations purchase account secondary inventory items, and residual assets. The total value of the non-ammunition OM&S that was reported by the Navy for FY 2001 was \$25.4 billion. The Naval Air Systems Command reported \$16.5 billion of non-ammunition OM&S consisting of appropriations purchase account principal end items and sponsor-owned material.

**Results.** The Navy policy to include principal end items as OM&S led the Navy to incorrectly report National Defense Property, Plant, and Equipment assets as OM&S. As a result, the Navy FY 2002 beginning balance for the OM&S account included approximately \$6.9 billion of principal end item assets that should be reported as National Defense Property, Plant, and Equipment. The Navy will need to identify and correct the remaining principal end item assets that are reported on the OM&S balance prior to issuing FY 2002 financial statements.

**Management Comments.** Comments were received from the Principal Deputy Assistant Secretary of the Navy (Financial Management and Comptroller) and the Director, Office of Financial Operations (Financial Management and Comptroller). Management generally concurred with the findings and conclusions and initiated actions to improve the Naval Air Systems Command financial reporting of non-ammunition OM&S. These actions included the removal of its aviation support equipment, mobile facilities equipment, and calibration standards equipment from the "Inventory and Related Property" line of the Balance Sheet on the FY 2002 Department of the Navy Mid-Year Financial Statement. The Naval Air Systems Command staff had also

instructed subordinate activities to provide better data to support the OM&S reported by them in the financial statements. Once received, the NAVAIR comptroller staff plans greater review of the data prior to submission to the Assistant Secretary of the Navy (Financial Management and Comptroller). Additionally, during the audit, the Assistant Secretary of the Navy (Financial Management and Comptroller) took corrective action to remove \$1.1 billion of installed aircraft engines that were erroneously included in the Navy non-ammunition OM&S balances. The Navy corrected this improper inclusion before it released the FY 2001 Financial Statements.

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## Background

**Introduction.** The audit was performed in support of Public Law 101-576, the “Chief Financial Officers Act of 1990,” November 15, 1990, as amended by Public Law 103-356, the “Federal Financial Management Act of 1994,” October 13, 1994. This is the first in a series of planned reports and discusses the financial reporting of the non-ammunition portion of operating materials and supplies (OM&S) by the Department of Navy (Navy).

DoD defines OM&S as tangible personal property that is to be consumed in normal operations. Navy non-ammunition portion of OM&S included in financial statements consisted of appropriations purchase account (APA) principal end items, sponsor-owned material, APA secondary inventory items, and residual assets. The total value of the non-ammunition OM&S that was reported by the Navy for FY 2001 was \$25.4 billion. Of the total, Naval Air Systems Command (NAVAIR) reported \$16.5 billion of non-ammunition OM&S. The NAVAIR reported OM&S consisted of APA principal end items and sponsor-owned material.

**OM&S Value.** The OM&S data reported by the Navy were derived from logistics systems designed for material management purposes. Those systems do not maintain the historical cost data necessary to comply with the valuation requirements of the Statement of Federal Financial Accounting Standards (SFFAS) No. 3, “Accounting for Inventory and Related Property,” October 27, 1993.

The total value of the Navy non-ammunition OM&S is shown on the following table.

<b>Value of Navy Non-Ammunition OM&amp;S</b>	
(dollars in thousands)	
APA Principal End Items	\$ 15,489,404
Sponsor-Owned Material	7,872,426
APA Secondary Inventory	962,145
Residual Assets	834,276
Other	<u>258,002</u>
<b>Total</b>	<b>\$25,416,253</b>

## Objectives

The overall objective of the audit was to evaluate management assertions pertaining to valuation, completeness, and existence of DoD OM&S accounts and to determine whether those accounts are presented fairly on the financial statements in accordance with Office of Management and Budget requirements. We focused this part of the audit on Navy actions needed to improve FY 2002 and future year financial reporting of its non-ammunition portion of OM&S. We also



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assessed management controls related to the specific objectives of the audit. See Appendix A for a discussion of the audit scope and methodology and the review of the management control program.

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## Non-Ammunition Financial Reporting

The Navy FY 2002 beginning balance for the OM&S account included approximately \$6.9 billion of assets that should be reported as National Defense Property, Plant, and Equipment (ND PP&E). The \$6.9 billion in assets was incorrectly included in the \$25.4 billion of non-ammunition OM&S on the Balance Sheet of the Navy Financial Statements. The incorrectly reported assets included:

- aviation support equipment assets totaling \$6.4 billion,
- mobile facilities totaling \$361 million, and
- calibration standards equipment totaling at least \$107 million.

In addition, the Navy improperly included \$1.1 billion of installed aircraft engines as part of its reported OM&S balance. The Navy reported those assets inaccurately because it did not comply with established guidance pertaining to which assets should be reported as OM&S. Also, the Naval Air Systems Command did not adequately validate the data gathered for OM&S reporting before submitting the data to the Assistant Secretary of the Navy (Financial Management and Comptroller) for inclusion in the financial statements. As a result of the audit, the Navy corrected the improper inclusion of the \$1.1 billion of installed aircraft engines before it released the final version of the FY 2001 Financial Statements. However, the \$6.9 billion of end item assets that were reported as OM&S will need to be corrected prior to issuing FY 2002 Financial Statements.

## Financial Reporting Policy

**Inventory and Related Property.** In SFFAS No. 3, "Accounting for Inventory and Related Property," October 27, 1993, the Federal Accounting Standards Advisory Board issued accounting principles to track and report OM&S. OM&S were required to be reported as an asset on the Balance Sheet and were defined as tangible personal property to be consumed in normal operations. Also, the standard excludes the following assets from being reported as OM&S:

- goods that have been acquired for use in constructing real property or in assembling equipment for the entity to use,
- stockpile materials,
- goods held under price stabilization programs,
- foreclosed property,
- seized and forfeited property, and
- inventory.

---

The standard requires OM&S to be categorized as the following:

- OM&S held for use,
- OM&S held in reserve for future use, and
- OM&S excess, obsolete, and unserviceable.

The standard also requires that once an asset is issued to an end user, OM&S are expensed and removed from the Balance Sheet.

**National Defense Property, Plant, and Equipment.** SFFAS No. 11, “Amendments to Accounting for Property, Plant, and Equipment,” October 1998, states that ND PP&E includes: (a) complete weapon systems such as aircraft, ships, and tracked combat vehicles; (b) PP&E components of weapons systems and support PP&E owned by the DoD or its component entities for use in the performance of military missions; and (c) vessels held in a preservation status by the Maritime Administration’s National Defense Reserve Fleet.

## Reporting Principal End Items as OM&S

NAVAIR financial data improperly included approximately \$6.9 billion in principal end items as OM&S to include support equipment, mobile facilities, and calibration equipment. Those assets should have been classified as ND PP&E. Until the audit, the Navy did not plan to change the reporting. Details on the types of items in the \$6.9 billion of incorrectly reported OM&S are as follows.

**Naval Aviation Support Equipment Program.** The Navy included \$6.4 billion of aviation support equipment assets from its Naval Aviation Support Equipment Program in the OM&S balances. The Navy aviation support equipment consisted of test and maintenance equipment that was used to maintain various aircraft and other sophisticated weapon systems. The Navy Aviation Support Equipment Program assets were used to sustain tactical aircraft and other tactical systems during combat operations. This program supported a variety of maintenance shops, supply support spaces, production controls, and other activities.

The support and maintenance equipment in the program was issued and in use both on board ships and at Naval Air Stations throughout the world. The aviation support equipment assets in the program met the definition of an ND PP&E asset. They were stand-alone assets rather than parts of an end item. As such, stand-alone assets should be included as a part of ND PP&E.

**Navy Mobile Facilities Program.** The Navy reported \$361 million of its mobile facilities as OM&S. The assets should have been reported as ND PP&E. The assets were part of the Navy Mobile Facilities Program. This program provides the equipment and all support requirements necessary to ensure that aircraft and other Navy weapon systems are maintained in environmentally controlled spaces, even in the most austere locations.

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As part of the Navy Mobile Facilities Program, Navy personnel deploy tactical weapon systems to any combat theater in the world and operate them indefinitely from any expeditionary location. Like the Naval Aviation Support Equipment Program, those integrated mobile facilities supported tactical aircraft and other tactical systems during combat operations throughout the world. The Navy Mobile Facilities Program supported a variety of maintenance shops, supply support spaces, production controls, and other activities.

The mobile facilities are primarily used as intermediate repair workstations. The basic mobile facility is a fundamental tactical shelter 8 feet high, 8 feet wide, and 20 feet long. The shelter is constructed of foam and beam material with an exterior surface of white painted aluminum, similar to a mobile home. The facility is designed for a 15-year service life.

Those facilities are stand-alone assets that meet the definition of ND PP&E; therefore, should not be included in OM&S balances.

**Navy Metrology and Calibration Standards Program.** The Navy also included \$107 million of calibration standards equipment assets as OM&S that should have been reported as ND PP&E. The assets are from the Metrology and Calibration (METCAL) Standards Program. The METCAL Standards Program establishes and maintains the equipment that is required to verify the accuracy of operating aviation support equipment.

An objective of METCAL is to provide standardized U.S. units of measurement to all Naval Aviation activities. METCAL will verify that Naval Aviation units of measurement are consistent with U.S. National and International Standards. Another METCAL objective is to ensure that Naval aviation support equipment used in weapons system maintenance is accurate.

METCAL assets are tracked using a non-financial feeder system, the Metrology Automated System for Uniform Recall and Reporting System (MEASURE). MEASURE tracks all active Navy metrology assets, to include aviation support equipment and calibration standards equipment, for the purpose of calibration recall. The MEASURE is also used to manage the inventory of all in-service calibration standards.

At the time of audit, the value of the in-service METCAL equipment was approximately \$107 million. In-service METCAL equipment is equipment that has been issued to the fleet and is in-use on board ships and at shore facilities around the world.

The METCAL equipment assets were stand-alone equipment that met the definition of ND PP&E; therefore, should not be reported in the Navy's OM&S balances.

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## Installed Aircraft Engines

The Navy Support/Commercial Derivative Aircraft Program acquires, fields, and supports special mission and commercial derivative aircraft using the best commercial concepts that benefit the DoD. The Navy improperly included \$1.1 billion of those installed aircraft engines as part of the OM&S balance. The Navy Support/Commercial Derivative Aircraft Program manages 1,623 engines valued at \$1.4 billion. Of the 1,623 engines, 266 were uninstalled spares valued at \$263 million and were appropriately included in OM&S balances. However, the remaining 1,357 engines, valued at \$1.1 billion, were installed on aircraft. We alerted the Navy that the installed engines should have been reported in ND PP&E. The Navy quickly corrected the error.

As a result, installed aircraft engines valued at \$1.1 billion were removed from the OM&S balance before the Navy released the final version of the FY 2001 financial statements. We believe the Navy should improve its accounting controls to ensure that errors of this magnitude are detected prior to inclusion in financial statements.

## Causes For OM&S Reporting Errors

The Navy incorrectly reported ND PP&E assets on the OM&S balance for the following reasons.

**Principal End Items.** The Navy decided in August 1999 to report its principal end items as ND PP&E and not as OM&S. However, the Navy reversed its position in February 2000 during an OM&S strategy working group meeting. The Navy believed that those items better met the definition of OM&S, and that it was appropriate to report principal end items on the Balance Sheet.

We discussed this decision with senior Navy financial management personnel and also reviewed the OM&S strategy working group minutes. The discussions and minutes indicated that the Navy based its decision to report principal end items as OM&S on a review performed by KPMG, a consulting firm hired by the Navy.

In general, the consultant's review revealed that the Navy "2 Cognizance symbol" assets were simply a component of a weapon system; and therefore, should be reported as OM&S.

We agree with the rationale that some Navy principal end items are component parts of another weapon system that could be reported as OM&S. However, we believe that other principal end items that are stand-alone functional systems, and not component parts of a weapon system, should be reported as ND PP&E.

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Examples of stand-alone assets include:

- NAVAIR aviation support equipment program assets,
- mobile facilities program assets, and
- METCAL assets.

**Installed Aircraft Engines.** Installed aircraft engines, valued at \$1.1 billion, were erroneously included in Navy reported non-ammunition OM&S balances. Those reporting errors occurred because NAVAIR did not adequately validate the data gathered for its non-ammunition OM&S before including the data in the Navy financial statements.

In order for NAVAIR to provide the Navy Comptroller data on its OM&S assets, NAVAIR requested, through email, spare engine inventory data from its various logistics program offices. However, the data provided by the Support/Commercial Derivative Aircraft Program office included both installed and spare engine inventories. NAVAIR provided the spare engine data to the Navy Comptroller. The data were included in the financial statements prior to being verified for accuracy. As a result of the inadequate review, installed aircraft engines were reported as OM&S.

## Effect on Financial Statements

Making the recommended changes will ensure that the FY 2002 and future year financial reports are accurate. The Navy should comply with guidance pertaining to reportable OM&S and validate the accuracy of non-ammunition OM&S data prior to its inclusion in the financial statements.

## Recommendations and Management Comments

**1. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) clarify and expand its policy for reporting on principal end items to ensure those stand-alone assets that meet the definition of National Defense Property, Plant, and Equipment are reported properly and are not included as a part of operating materials and supplies.**

**Principal Deputy Assistant Secretary of the Navy (Financial Management and Comptroller) Comments.** The Navy concurred with the recommendation. The Navy stated that it will not include the value of its aviation support equipment, mobile facilities equipment, and calibration standards equipment on the "Inventory and Related Property" line of the Balance Sheet on the FY 2002 Department of the Navy Financial Statement.

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**2. We recommend that the Commander, Naval Air Systems Command strengthen its management control procedures to require that data from subordinate commands that are used in the compilation of operating material and supplies balances are adequately validated and categorized prior to their inclusion in the Navy financial statements.**

**Director, Office of Financial Operations, Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) Comments.** The Navy concurred with the recommendation. NAVAIR staff has notified appropriate subordinate activities that all future data provided for financial statement reporting purposes must be supported with detailed documentation, which will be compiled by their office before being submitted to the Assistant Secretary of the Navy (Financial Management and Comptroller).

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## Appendix A. Scope and Methodology

We audited portions of the Navy General Fund financial reporting of non-ammunition OM&S. We examined financial information related to \$8 billion of the \$16.5 billion Navy non-ammunition OM&S, which was summarized in prior financial statements.

We performed the audit by making inquiries to personnel from the Offices of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, the Navy Air Systems Command, and NAVAIR to determine the processes and policies that the Navy used to report OM&S.

We performed this audit from August 2001 through March 2002 in accordance with generally accepted government auditing standards.

**Use of Computer-Processed Data.** We relied on computer-processed data from the NAVAIR to determine the value of the beginning FY 2002 OM&S balances. Although we did not perform a formal reliability assessment of the computer-processed data, we determined that the assets represented by the data were improperly presented as OM&S rather than ND PP&E. We did not find errors that would preclude the use of computer-processed data to meet the audit objectives or that would change the conclusions in this report.

**General Accounting Office High-Risk Area.** The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the financial management high-risk area.

### Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of Review of the Management Control Program.** We reviewed Navy management's self-evaluation of controls to determine whether the issues disclosed in this report had been reported as material management control weaknesses.

**Adequacy of Management Controls.** We identified material management control weaknesses, as defined by DoD Instruction 5010.40, related to the reporting of assets in the Navy financial statements. The details of the management control weaknesses are provided in detail in the Finding section of this report. All of the recommendations in this report, if implemented, will improve the accuracy and reliability of Navy financial reporting. A copy of this report will be provided to the senior official responsible for management controls in the Navy.



---

**Adequacy of Management's Self-Evaluation.** The FY 2001 Navy Annual Statement of Assurance did not identify specific control weaknesses related to the identification and reporting of Navy assets as operating materials and supplies.

## **Prior Coverage**

The General Accounting Office, the Inspector General of the Department of Defense, and the Naval Audit Service have conducted multiple reviews related to Navy financial statement issues. General Accounting Office reports may be accessed on the Internet at <http://www.gao.gov>. Inspector General of the Department of Defense reports may be accessed on the Internet at <http://www.dodig.osd.mil>. The Naval Audit Service reports may be accessed on the Internet at <http://www.hq.navy.mil/NavalAudit>.

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## **Appendix B. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)/Chief Financial Officer  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)

### **Department of the Army**

Assistant Secretary of the Army (Financial Management and Comptroller)  
Auditor General, Department of the Army

### **Department of the Navy**

Assistant Secretary of Navy (Financial Management and Comptroller)  
Naval Inspector General  
Auditor General, Department of the Navy  
Commander, Naval Air Systems Command

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Non-Defense Federal Organization and Individual**

Office of Management and Budget

### **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member (cont.)**

House Committee on Government Reform

House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform

House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform

House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

# Department of the Navy Comments



DEPARTMENT OF THE NAVY  
OFFICE OF THE ASSISTANT SECRETARY  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
1000 NAVY PENTAGON  
WASHINGTON, DC 20350-1000

AUG 9 2002

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Subj: DODIG DRAFT AUDIT REPORT "NAVAL AIR SYSTEMS COMMAND  
FINANCIAL REPORTING OF NON-AMMUNITION OPERATING  
MATERIAL AND SUPPLIES FOR FISCAL YEAR 2002" PROJECT NO.  
D2001FJ-0179.000 OF 1 JULY 2001

Ref: (a) DoDIG memo of 1 Jul 02

Encl: (1) Department of the Navy Comments

By reference (a), you requested comments regarding the  
subject audit. Enclosure (1) provides the Department of the  
Navy response.

My point of contact for this action is Mr. Warren Pfeiffer  
who may be reached at (202) 685-6730 or DSN 325-6730 and by  
email at pfeiffer.warren@fmo.navy.mil.

A handwritten signature in cursive script, reading "Gladys J. Commons", is positioned above the typed name.

**GLADYS J. COMMONS**  
**Principal Deputy**  
**Assistant Secretary of the Navy**  
**(Financial Management and Comptroller)**

Copy to:  
COMNAVAIRSYSCOM

---

Department of the Navy  
Response to  
DODIG DRAFT AUDIT REPORT  
"NAVAL AIR SYSTEMS COMMAND FINANCIAL REPORTING OF NON-AMMUNITION  
OPERATING MATERIAL AND SUPPLIES FOR FY 2002"  
Project No. D2001FJ-0179.000 of 1 Jul 01

**Recommendation**

We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) clarify and expand its policy for reporting on principal end items to ensure those stand-alone assets that meet the definition of National Defense Property Plant and Equipment Assets are reported properly and are not included as a part of Operating Materials and Supplies.

**Response:** Concur. Per your recommendation, for the Fiscal Year 2002 Department of the Navy (DON) Mid-year Financial Statement, the value of aviation support equipment, mobile facilities equipment and calibration standards equipment was not included in the "Inventory and Related Property" line of the balance sheet. In addition, we changed the guidance provided in the DON data collection instrument to ensure that aviation support equipment, mobile facilities equipment and calibration standards equipment are not reported in the future as operating materials and supplies. As the DON works with the Department of Defense to implement the new Statement of Federal Financial Accounting Standards dealing with the accounting and reporting of military equipment we will capture and report the value of aviation support equipment, mobile facilities equipment and calibration standards equipment as equipment.

Enclosure (1)



DEPARTMENT OF THE NAVY  
OFFICE OF THE ASSISTANT SECRETARY  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
1000 NAVY PENTAGON  
WASHINGTON, DC 20350-1000

7350.2

FMO

OCT -7 2002

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Subj: DODIG DRAFT AUDIT REPORT "NAVAL AIR SYSTEMS COMMAND  
FINANCIAL REPORTING OF NON-AMMUNITION OPERATING  
MATERIAL AND SUPPLIES FOR FY 2002" PROJECT NO.  
D2001FJ-0179.000 of 1 JUL 01

Ref: (a) ASN(FM&C) memo of 9 Aug 02

Encl: (1) Department of the Navy Comments

By reference (a), you were provided the Department of the Navy's response to subject audit. Enclosure (1) provides an additional response that was inadvertently omitted from reference (a).

My point of contact for this action is Mr. Warren Pfeiffer who may be reached at (202) 685-6730 or [pfeiffer.warren@fmo.navy.mil](mailto:pfeiffer.warren@fmo.navy.mil).

RONALD L. HAAS  
Director  
Office of Financial Operations

Copy to:  
COMNAVAIRSYSCOM

Department of the Navy  
Response to  
DODIG DRAFT AUDIT REPORT  
"NAVAL AIR SYSTEMS COMMAND FINANCIAL REPORTING OF NON-  
AMMUNITION OPERATING MATERIAL AND SUPPLIES FOR FY 2002"  
Project No. D2001FJ-0179.000 of 1 Jul 01

**Recommendation 2.** We recommend that the Commander, Naval Air Systems Command (NAVAIR) strengthen its management control procedures to require that data from subordinate commands that are used in the compilation of Operating Material and Supplies balances are adequately validated and categorized prior to their inclusion in the Navy financial statements.

**Response:** Concur. The NAVAIR Comptroller's office collects Operating Material and Supplies (OM&S) data for financial statement reporting purposes from the appropriate subordinate activities via email and telephone communications. In support of NAVAIR's Management Control policy, staff at the NAVAIR Comptroller's office will now only accept hard copy, detailed data (spreadsheet) in support of the total numbers. Once received from the subordinate activities and reviewed by NAVAIR comptroller staff, the data is then provided to the Assistant Secretary of the Navy, Financial Management and Comptroller (ASN(FM&C)) via the Department of the Navy web-based data collection instrument (DCI). NAVAIR staff has notified appropriate subordinate activities that all future data provided for financial statement reporting purposes must be supported with detailed items and documentation which will be compiled by our office before being submitting to ASN(FM&C). Estimated completion date is 31 October 2002, which is the next OM&S financial statement reporting period for FY 2002.

Encl (1)

## **Team Members**

The Defense Financial Auditing Service Directorate, Office of the Assistant Inspector General for Auditing of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

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